LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 6606
BILL NUMBER: SB 453

DATE PREPARED: Dec 15, 2001
BILL AMENDED:

SUBJECT: Inventory Tax Credits.

FISCAL ANALYST: Bob Sigalow
PHONE NUMBER: 232-9859

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State

STATE IMPACT	FY 2002	FY 2003	FY 2004
State Revenues			4,500,000
State Expenditures		218,800,000	446,700,000
Net Increase (Decrease)		(218,800,000)	(442,200,000)

Summary of Legislation: This bill establishes inventory tax replacement credits payable from the State Property Tax Replacement Fund.

Effective Date: July 1, 2002.

Explanation of State Expenditures: Under this provision, the state would provide a 100% credit for property taxes due on inventory assessments. The credit would be passed through county auditors and paid to civil taxing units and schools at the same time that property taxes are distributed. The credit would be paid from the Property Tax Replacement Fund (PTRF). The PTRF is annually supplemented by the state General Fund, so any additional PTRF expenditures would ultimately come from the General Fund.

Estimation Issues: In estimating the impact of this provision, special attention was given to the impending real property reassessment. The final rules on real property assessment and personal property assessment will have a direct impact on property tax rates and the amount of the property tax levy that will be attributed to inventory. The real property reassessment will shift some of the property tax burden from personal property owners to real property owners, while the new personal property assessment rule will moderate that shift to some extent. The total increase in assessed value for 2002 pay 2003 is estimated at about 61.1% taking both the new real property and personal property rules into account. It was assumed that the next reassessment will apply to property assessed in 2002 with taxes first paid in 2003 as mandated in the latest order from the Indiana Tax Court.

Data: According to the State Tax Board's Property Tax Analysis for various years, the net property tax on inventory equaled $407 M in CY 2000 and $428 M in CY 2001. The 2000 pay 2001 inventory AV was $4.70 B and has grown at an average annual rate of 2.7% over the last five years. The statewide net average property tax rate was $8.6955 per $100 AV in CY 2000 and $8.8151 per $100 AV in CY 2001.

Fiscal Impact: Future inventory assessed values were projected based on historical data. Future average net property tax rates were estimated based on historical data and on the estimated changes to the total tax base due to the newly adopted real property and personal property assessment regulations. Based on estimates of future total tax levies and total assessed values, it is estimated that the statewide average net tax rate will grow at a rate of about 1.4% per year in non-reassessment years. An estimate of the future net property tax on inventory was computed by multiplying the estimated net assessed value of inventory by the estimated net average tax rates.

The table below shows the estimated net cost to the state to provide the 100% inventory credit beginning in CY 2003.

Estimated State Cost of Inventory Tax Credit			
Calendar Year	**Credit Amount**	**Fiscal Year**	**Credit Amount**
CY 2003	$ 437.6 M	FY 2003	$ 218.8 M
CY 2004	455.9 M	FY 2004	446.7 M
CY 2005	475.0 M	FY 2005	465.5 M
CY 2006	494.9 M	FY 2006	485.0 M
CY 2007	485.3 M	FY 2007	490.1 M

Based on the estimated growth rates of inventory assessed value and net property tax rates, the cost of the credit is estimated to grow at about 4% to 5% per year.

Explanation of State Revenues: Under current law, the state will allow a credit against state income tax for the property tax paid on the first $37,500 AV of a taxpayer's business personal property in the state. This new credit will be first available based on property tax paid in CY 2003 and can be claimed beginning in 2004 when taxpayers file their 2003 income tax returns. In some cases, the elimination of a taxpayer's net property tax on inventory contained in this bill could reduce the state's liability for the income tax credit. While there is no mechanism to segregate inventory from depreciable property as they apply to the $37,500 AV credit, there are some taxpayers who have total assessments, including inventory, that are at or under $37,500. For these taxpayers it is clear that the inventory reduction in this bill would reduce the state's income tax credit liability. The amount of the reduced state liability for the income tax credit is estimated at $3 M to $6 M annually under this bill, or approximately $4.5 M beginning in FY 2004.

Explanation of Local Expenditures:

Explanation of Local Revenues: This provision would not affect local revenues. Inventory owners' property tax bills would be reduced by the amount of net property tax that they pay on business inventory, but the state would reimburse local taxing units for the lost revenue.

State Agencies Affected: Auditor of State; Department of State Revenue; Property Tax Replacement Fund Board; Department of Local Government Finance (State Tax Board).

Local Agencies Affected: County assessors; County auditors.

Information Sources: Property Tax Analysis, various years, State Board of Tax Commissioners; Local Government Database.